

Message Text

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ACTION ARA-06

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C O N F I D E N T I A L MEXICO 0853

LIMDIS

E.O. 11652: GDS

TAGS: EFIN MX

SUBJ: FOREIGN EXCHANGE CRISIS AVOIDED

REF: (A) MEXICO 0812 (B) MEXICO 0769.

1. SUMMARY: A POTENTIAL FOREIGN EXCHANGE MARKET CRISIS APPEARS TO HAVE BEEN AVOIDED AND THE LOPEZ-PORTILLO ADMINISTRATION HAS OVERCOME THE FIRST SERIOUS TEST OF THE EXCHANGE SYSTEM AT A MINIMAL BUT UNKNOWN COST. END SUMMARY.

2. THE RAPID DEPRECIATION OF THE PESO IN THE LAT TWO HOURS OF TRADING ON JANUARY 20 LED SOME PEOPLE TO EXPECT, OR AT LEAST WORRY ABOUT ANOTHER RUN ON THE BANKS ON FRIDAY, JAN 21, AND A FURTHER DEPRECIATION OF PESO. A RUN DID NOT DEVELOP AND THE PESO APPRECIATED SOMEWHAT, APPARENTLY IN RESPONSE TO LIMITED SALES OF DOLLARS BY PUBLIC SECTOR ENTERPRISES.

3. THE REASONS FOR THE RAPID DECLINE IN THE RATE ON JANUARY 20, AT NOT KNOWN. SOME BANKERS MAINTAIN IT WAS THE RESULT OF A DELIBERATE ATTEMPT ON THE PART OF THE BANK OF MEXICO TO GET THE RATE MOVING DOWNWARD AND THAT

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THEY USED A PUBLIC SECTOR ENTERPRISE TO BUY DOLLARS AS THEIR TOOL. IF THIS IS THE CASE, THE CENTRAL BANK WAS SURPRISED BY HOW FAR THE RATE MOVED. OTHER BANKERS CREDIT MARKET FORCES WITH THE DECLINE, NOTING THAT MANY COMPANIES WERE IN THE MARKET, OSTENSIBLY FOR THE PURPOSE OF BUYING DOLLARS FOR LOAN REPAYMENTS. ANOTHER POSSIBILITY, MENTIONED IN REF A, IS THAT RUMORS FLOATING

AROUND U.S. MARKETS FOUND THEIR WAY TO MEXICO AND STARTED
A MINOR RUN.

4. WHAT THE REASONS FOR THE RATE'S DECLINE, THE
GOM WAS CONCERNED ABOUT THE SIZE OF THE DEPRECIATION.
THE BANK OF MEXICO ISSUED A PRESS STATEMENT STATING THAT
THE DEPRECIATION SHOULD NOT BE CONSIDERED ABNORMAL. (SEE
REF B). THERE WERE NUMEROUS HIGH LEVEL DISCUSSIONS.
WHILE WE DO NOT KNOW THAT EXTENT OF PRESIDENTIAL INVOLVE-
MENT, HE WAS KEPT INFORMED OF THE SITUATION. THE GOME
AND BANK OF MEXICO APPEAR TO HAVE DECIDED TO CALM THE
MARKET BY SUPPLYING DOLLARS THROUGH PUBLIC SECTOR ENTER-
PRISES. THIS, PLUS OTHER DOLLAR SALES ON JANUARY 21,
WAS ADEQUATE TO RESTORE THE DESIRED DOLLAR POSITIONS OF
FOREIGN EXCHANGE DEALERS AND THE RATE DEPRECIATED,
WITHOUT, ACCORDING TO BANK SOURCES, DIRECT INTERVENTION
ON THE PART OF THE BANK OF MEXICO. HOWEVER, THE MARGIN
BETWEEN BUYING AND SELLING RATES WHICH HAD WIDENED
DRAMATICALLY ON JANUARY 20, REMAINED ABOUT 10 PERCENT
ON JANUARY 21, INDICATING A GREAT DEAL OF CAUTION ON
THE PART OF TRADERS. THE RATE APPEARS TO HAVE
DECLINED SLIGHTLY ON JANUARY 24; CITIBANK'S MID-DAY
RATES WERE 20.50 AND 22.50. A SENIOR BANCO DE COMERCIO
OFFICIAL TELLS US THAT DOLLARS ARE IN REASONABLY STRONG
SUPPLY.

5. IT IS VERY LIKELY THAT A DEPRECIATION OF THE MAGNITUDE
EXPERIENCED LAST THURSDAY WOULD HAVE SET OFF A PANIC IF
IT HAD OCCURRED PRIOR TO DECEMBER 1. THAT IT DID NOT
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INDICATES TO US THAT THE LOPEZ-PORTILLO ADMINISTRATION
HAS BEEN SUCCESSFUL IN RESTORING A DEGREE OF CALM TO THE
COUNTRY.
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